

Message Text

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ACTION NEA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-01

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02

OPIC-03 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 FEA-01

IO-13 /121 W

-----162343Z 060289 /14

R 161348Z MAR 77

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 2804

INFO AMEMBASSY ABU DHABI

AMEMBASSY BONN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

C O N F I D E N T I A L CAIRO 4484

EO 11652: GDS

TAGS: EGEN, EAID, EG

SUBJ: EGYPT'S DEBT SERVICE RATIO

REF CAIRO 3453 (NOTAL),

1. IT MAY BE INSTRUCTIVE AT THIS POINT PRIOR TO SCHEDULED CONSULTATIVE GROUP MEETING TO PULL TOGETHER SUCH ESTIMATES AS ARE NOW AVAILABLE FOR COMPARISON OF EGYPT'S DEBT SERVICE BURDEN, A SUBJECT EXTENSIVELY REPORTED IN PAST BY EMBASSY, AND EXPORT EARNINGS. DRAWING FROM RECENT IBRD FIGURES (SEE AID FY77 CIP LOAN PAPER), INDICATIONS ARE THAT FORMER MAY BE AS HIGH AS \$1,550 MILLION IN 1977 AND LATTER ONLY \$2,300 MILLION.

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2. WHILE DETAILS ARE LACKING ON COMPOSITION OF IBRD DEBT ESTIMATE, BALLPARK COMPARABILITY OF FIGURES SUGGEST TOTAL IS DERIVED FROM SOURCES USED IN IMF TABULAR PRESENTATION ON OUTSTANDING EXTERNAL OBLIGATIONS AS OF 30 SEPT 1976. LATTER UNPUBLISHED DATA SHOW SOME \$2,000 MILLION IN CONVERTIBLE PAYMENTS SCHEDULED DURING 1977, INCLUDING APPROX \$550

MILLION IN BANK CREDIT FACILITIES. REMAINING SUM CONSISTS OF ROUGHLY \$1,100 MILLION IN OFFICIAL INTEREST-BEARING DEPOSITS, PLUS OTHER TYPES OF LOANS, LARGELY OFFICIAL, AND SUPPLIERS CREDITS. (SHOULD BE NOTED THAT IMF TOTALS DO NOT REFLECT ARREARS DUE AT END OF 1976 NOR TOTALITY OF INTEREST PAYMENTS, ON WHICH SOLID INFO IS LACKING, AND THEREFORE MAY BE PRESUMED TO BE FAR FROM PRECISE.)

3. IF UNADJUSTED IBRD DEBT PAYMENTS ESTIMATE (APPARENTLY EXCLUDING SHORT-TERM OBLIGATIONS) IS USED, EGYPT'S RATIO OF DEBT SERVICE TO EXPORT EARNINGS THIS YEAR IS AN ASTONISHING 67 PERCENT. ON ASSUMPTION, HOWEVER, THAT BULK (SOME \$1,100 MILLION) OF OFFICIAL DEPOSITS OBLIGATIONS ARE TO ARAB DONORS AND ARE NOT REALISTICALLY EXPECTED TO BE SERVICED IN 1977, EFFECTIVE RATION DELCINES TO APPROX 25 PERCENT.

4. BOTH FORMULATIONS ABOVE, HOWEVER, SEEMINGLY LEAVE ASIDE HEAVY 1977 SHORT-TERM DEBT SERVICE, AMOUNTING TO AT LEAST \$500 MILLION AND, ADDITIONALLY, CARRY-OVER ARREARS ON BANK CREDIT FACILITIES FROM 1976. GOE THEREFORE FACES FINANCIAL MANAGEMENT TASK THIS YEAR OF FINDING FOREIGN EXCHANGE IN AMOUNT OF \$1,000 MILLION OR MORE JUST TO MEET EXTERNAL CREDIT OBLIGATIONS, WITH EARNINGS FROM COMMODITY EXPORTS SUM marginally IN EXCESS OF ONLY TWICE THAT TOTAL (NET SERVICES AND TRANSFERS ARE EXPECTED TO CONTRIBUTE CLOSE TO ANOTHER \$1,000 MILLION IN EARNINGS). ROUGH DIMENSIONS OF SERVICE PROBLEM, TOTALLY IGNORING OFFICIAL DEPOSIT OBLIGATIONS, ARE \$500 MILLION IN OFFICIAL AND EUROCURRENCY LOANS AND SUPPLIERS CREDITS, AND AN ABSOLUTE MINIMUM OF \$500 IN SHORT-TERM CREDITS. \$1,100
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IN INTEREST BEARING DEPOSITS REACHING MATURITY IN 1977 ADD OBVIOUSLY COMPLICATING FACTOR TO DEBT SERVICE PICTURE.

5. ONE GOE OFFICIAL HAS TERMED EGYPT'S DEBT SERVICE RATIO AS HIGHEST IN WORLD (REFTEL); IF COUNTRY DOES NOT LITERALLY HAVE CLAIM TO THIS DUBIOUS DISTINCTION, PAYMENTS SCHEDULE IS STILL EXTROARDINARILY DEMANDING AT THIS TIME. IT IS THUS CLEARLY IN EGYPT'S INTEREST TO APPROACH IBRD CONSULTATIVE GROUP INMAY AS APPROPRIATE FORUM FOR DISCUSSION OF DEBT RELIEF, ANY KIND OF DEBT RELIEF. ONLY POSSIBILITY APPARENT TO US THAT QUESTION WILL ASSUME LESSER SIGNIFICANCE IS LINKED TO CURRENT UNCONFIRMED INDICATIONS THAT ARABS MAY COME THROUGH WITH \$1,500 MILLION IN MEDIUM-TERM LOAN FINANCING TO MOP UP MOST OF THE BANK CREDIT OBLIGATIONS AND MAY ALSO SUSPEND REPAYMENTS ON ANY EXISTING LOANS. IF THIS IS UNFOUNDED REPORT OR UNRESOLVED PROBLEM AT TIME OF MAY MEETING, CRITICAL QUESTION OF HEAVY DEBT BURDEN THIS YEAR, AS EXEMPLIFIED BY DEBT SERVICE RATIO, NO MATTER HOW CALCULATED,CAN BE EXPECTED TO BE CENTRAL TO GOE CONCERNS AT PARIS.

MATTHESS

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